

# NCUA News

## Positive Treasury Study Released

The Treasury Department issued a primarily positive report last month on credit union supervision, the National Credit Union Share Insurance Fund, and corporate credit unions as the result of Congress' request for an in-depth study.

"We are extremely pleased with the Treasury's overall conclusion that the NCUA has done a good job regulating credit unions," Chairman D'Amours noted after reviewing the study. Specifically, the report recommends that the Share Insurance Fund remain under NCUA purview, stating that the Fund is in good condition, and that credit unions' 1 percent deposit should remain intact. Treasury had been asked to consider whether credit unions should write-off their 1 percent deposits in the Share Insurance Fund.

The report also found credit unions and NCUA in good condition and called for no major changes in credit union regulation or supervision. Chairman D'Amours was commended for his leadership as NCUA made significant strides in improving the supervision of corporate credit unions over the past few years.

Considering the report's recommendations and suggestions, D'Amours called the feedback "constructive" and said that the agency is already in the process of addressing many of these areas, and will carefully consider all recommendations made during the coming months. Many of the Treasury's recommendations listed below would require Congressional action.

### Credit Union Supervision

The Treasury study recommends that Congress and/or NCUA:

1. Make important safety and soundness rules readily accessible, which suggests that bylaws and interpretive rulings and policy statements be integrated with NCUA regulations.
2. Increase the asset reserve target for federal credit unions from 6 to 7 percent.
3. Adopt a prompt corrective action system for federally insured credit unions, similar to the FDIC system.
4. Require that federally insured credit unions over \$500 million obtain an independent financial audit by a certified public accountant.
5. Develop a risk-based net-worth requirement for large, complex credit unions.

### Share Insurance Fund

Considering the Share Insurance Fund, the report recommends that Congress:

1. Establish a Share Insurance Fund available assets ratio of 1 percent of insured shares. This ratio would be based upon the amount of liquid assets (primarily investments) which would be available to cover potential claims.
2. Require credit unions to adjust their 1 percent deposit in conjunction with filing 5300 reporting forms.
3. Raise the Share Insurance Fund equity ratio from 1.3 to 1.5 percent.

continued on page 6

January 1998, Number 1

### HIGHLIGHTS

Briefs	2
Board Actions	3
Year 2000	4
Accounting for Y2K	5

### JUST RELEASED

#### Y2K Self-Analysis Guide

NCUA is issuing a *Year 2000 Self Analysis Guide* in January for credit unions to use as a resource tool to achieve compliance. The guide discusses Y2K problems and details what should be included in credit union planning throughout the process.

The guide also includes over 50 questions that credit unions should ask themselves about their plan and the process being used to achieve compliance.

#### Quarterly Year 2000 Reporting is Mandatory

The *Year 2000 Quarterly Credit Union Report* became an official reporting requirement in November 1997 when its Office of Management and Budget control number 3133-0147 was assigned. Credit unions are now required to complete and submit this report.

## News Briefs

- Congress Reconvenes Jan. 27 — Besides field of membership, the major issues for credit unions and NCUA are likely to be bankruptcy reform and Year 2000 in the upcoming 2<sup>nd</sup> session of the 105th Congress. An audit requirement for credit unions is being lobbied heavily by the American Institute of Certified Public Accountants.
- Failures at Record Low — A low 13 credit unions failed during 1997, seven liquidated and six merged with assistance. The cost of failures was \$10.6 million.
- NCUSIF Equity Level — The Share Insurance Fund ended 1997 with a 1.30 percent equity ratio.
- Electronic Fund Transfers — By Jan. 1, 1999, NCUA will make all payments to employees, vendors, and credit unions electronically. Please return EFT data request forms to NCUA as soon as possible to establish the necessary accounts.
- Y2K Vendor Reviews Underway — NCUA completed the first of ten on-site, vendor compliance reviews in

December. NCUA is conducting these reviews to evaluate information system vendor plans and progress toward achieving Year 2000 compliance. The reviews will conclude by mid-March. An overview of results will be released.

### Former NCUA General Counsel Dies

John Ostby, former NCUA General Counsel, passed away December 12, 1997, following a heart attack. He was vacationing with his family in California when he died peacefully in his sleep. Following a 30-year military career, Mr. Ostby served nine years as NCUA General Counsel, from Jan. 31, 1974, to Jan. 31, 1983.

### Allen Carver Retires

H. Allen Carver retired Jan. 3, 1998, after a 32-year career that began as an NCUA examiner in 1965. For many years, Carver served as a NCUA regional director, first in Chicago and then Atlanta. He returned to headquarters in 1994 to organize and head NCUA's Office of Corporate Credit Unions and to strengthen corporate oversight.

Carver was recognized with numerous awards during his tenure. Among his most prestigious is the Presidential Rank Award, Meritorious Executive.

## GC Opinion Letters

The NCUA Office of General Counsel responds to written requests for legal interpretations of the Federal Credit Union Act and NCUA Rules and Regulations. Summaries follow of some of the latest letters issued that may have wide interest to the credit union community. These legal opinions may be secured by writing to the Office of Public and Congressional Affairs. Please provide the identifying number and title when making a request. The General Counsel opinion letters are also available electronically on the NCUA Website at <http://www.ncua.gov>.

*No. 97-0923 IRA Insurance Coverage* — Individual Retirement Accounts established separately by credit union members that name each other as a beneficiary are insured separately by the National Credit Union Share Insurance Fund. Each IRA is eligible to receive \$100,000 of separate insurance coverage. Dec. 19, 1997

*No. 97-0951 Disclosing Exam Reports and CAMEL Ratings* — NCUA regulations prohibit credit unions from releasing NCUA examination reports and the CAMEL ratings they contain. Dec. 9, 1997

*No. 97-1009 Conflict of Interest* — Officers of a federal credit union who are

also part of a labor union's management must recuse themselves from participating in any discussion or voting on any matters concerning the credit union's dealings with the labor union. The directors' dual positions create an inherent conflict of interest. Dec. 15, 1997

*No. 97-1044 Protecting Confidential Information* — Confidential information obtained from a credit union during an examination is prohibited from unauthorized disclosure by NCUA regulation and exempted from disclosure under the Freedom of Information Act. The Trade Secrets Act establishes criminal penalties for federal employees who make unauthorized disclosures. Dec. 16, 1997

*No. 97-1056 Insuring Simplified Employee Pension Accounts* — A simplified employee pension (SEP) is insured like an IRA (individual retirement account) under NCUA Rule 745.9-2. Dec. 16, 1997

*No. 97-1116 Safekeeping Securities* — NCUA issued an interim final rule for Part 703, in November that allows brokers to "safekeep" securities provided the safekeeper is regulated or supervised by either the Securities and Exchange Commission or a federal or state depository institutions regulatory agency. Dec. 16, 1997

## NCUA News

NCUA News is published by the National Credit Union Administration, the federal agency which supervises and insures credit unions.

**Norman D'Amours, Chairman**  
**Yolanda T. Wheat, Board Member**  
**Dennis Dollar, Board Member**

Information about NCUA and its services may be secured by writing to the Office of Public and Congressional Affairs, or by calling 703-518-6300. News of what is happening at NCUA is available by calling 800-755-1030 or 703-518-6339.

Robert E. Loftus, *Director,*  
 Office of Public and Congressional Affairs  
 Cherie Umbel, *Editor*  
 Lesia Bullock, *Contributing Writer*  
 Barbara Walker, *Graphics*

National Credit Union Administration  
 1775 Duke Street  
 Alexandria, VA 22314-3428

## DECEMBER BOARD ACTIONS

### 1998 Operating Fee Increased 9.25 Percent

The NCUA Board approved a 1998 Operating Fee increase of 9.25 percent to cover budgeted expenditures at its December meeting. The previous month, the Board approved a 1998 operating budget of \$109.3 million, a 10 percent increase over the 1997 budget. Without an operating fee increase, NCUA would experience a shortfall of \$4 million in 1998.

In the past four years, the operating fee has declined 23 percent and credit unions have not had a fee increase for six years. The budget increase is primarily due to the Boards' objectives of meeting compliance goals tied to the Year 2000 issue, expanding the examination program for corporates, and paying staff a merit increase.

**Corporate Fee Change Expected** — To achieve an equitable fee assessment among corporate credit unions, in the coming year a proposed rule change is expected that would enable NCUA to assess an operating/examination fee to all corporate credit unions. Rather than increasing the operating fee now charged only to federal corporate credit unions, assessing a fee to all 39 corporate credit unions will be considered a more equitable arrangement.

The revised 1998 Operating Fee scale for federal credit unions is as follows:

Total Assets		Assessment Rate
are over	but not more than	
\$ 0	\$500,000	\$0.00
\$500,000	\$750,000	\$100.00
\$750,000	\$449,714,407	0.0002665 X total assets
\$449,714,407	\$1,360,829,044	\$119,848.89 + 0.00007768 X total assets over \$449,714,407
\$1,360,829,044	and over	\$190,624.28 + 0.00002592 X total assets over \$1,360,829,044

NCUA will issue statements that include operating fee assessments and insurance fund adjustments to credit unions in March 1998.

### Board Approves '98 Revolving Loan Program

The NCUA Board approved a 3 percent loan interest rate for the 1998 Community Development Revolving Loan Fund Program.

Applications will be accepted throughout 1998 from low-income designated credit unions. Thorough business plans must document how funds will be used to provide basic financial and related services that result in increased income, ownership, and employment for residents within the credit union's community. Loans are limited to five years and have a \$300,000 ceiling.

The US Congress appropriated an additional \$2 million during the past two years to enhance the original \$6 million revolving loan program that's proven so effective. Since NCUA assumed control in 1987, the CDRLP has provided over \$15.4 million in low-interest rate loans to 86 low-income credit unions. At Nov. 30, 1997, the program had \$6 million outstanding with no loan delinquencies.

The CDRLP has also awarded \$653,000 in technical assistance grants in the past five years. Grants are not repaid. Provided by Fund earnings, \$150,000 is expected to be available for grants in 1998.

### Corporates May Apply for National FOM

The NCUA Board will consider national field of membership requests from corporate federal credit unions on a case-by-case basis in an attempt to provide natural person credit unions with more options when selecting a financial service provider.

NCUA surveyed both corporate and natural person federal credit unions in the past

year, asking for input on permitting nationwide fields of membership for federal corporate credit unions. In summation, opinions varied. NCUA believes that allowing service options from a choice of corporates may help prevent credit unions from seeking these services outside the credit union system.

Guidelines to apply for national fields of membership will be available shortly on the NCUA web site at [www.ncua.gov](http://www.ncua.gov).

### CLF Loan Collateral Revised

The NCUA Board amended Section 725.19 of the R&Rs to provide credit unions with greater flexibility in securing loans through the Central Liquidity Facility. When credit unions apply directly or through a corporate agent for a loan, the rule change permits CLF the option of taking either a blanket security interest or a first priority security interest in specific credit union collateral with a net book value at least equal to 110 percent of the amount owed.

### Conversion to Private Insurance

The NCUA Board approved an insurance conversion request from the \$12.5 million Canyon Medical Health Credit Union, Caldwell, Idaho. Final insurance conversion approval is subject to an approving vote by the members.

The \$410,000 Warrensville Heights School Employees FCU located in Warrensville, Ohio, also gained approval to convert to private insurance to accommodate its proposed merger into Shaker Heights Teachers Credit Union, a state-chartered, privately insured institution. Final approval is contingent upon an approving membership vote.

### Community Charter

The Board approved a request from Kitsap Federal Credit Union, Bremerton, Wash., to convert from occupational to a community charter. With a community charter, the \$292 million institution, organized in 1934, will be able to offer credit union service to the residents of Greater Kitsap Peninsula.

### Conversion Approved

The NCUA Board approved the conversion of \$177 million Synergy FCU, Cranford, NJ, to a mutual savings bank contingent upon the members' approving vote.



## Year 2000 Vendor Communications Part 2

Preparing for Y2K involves more than making a call to your information systems vendor to learn their plans. "Credit unions need to understand that I am only 25 percent of their problem," one vendor stated at the recent NCUA Vendor Conference.

It is common for an average size credit union to rely on many information system vendors. The responsibility of managing those vendors to ensure that their products, individually and collectively, are Y2K compliant rests solely on the credit union management team.

One NCUA regional director recently wrote the following statement to the region's credit unions that were not Y2K compliant and those that had not made significant progress in addressing Y2K issues —

*"The board of directors is responsible for managing the process of identifying, repairing, and testing all aspects of computer-related systems that will be affected by the century change. This responsibility can not be abdicated to your information systems vendor; it is a responsibility which you own; and to which I will hold you accountable."*

Credit unions that believe their Y2K problem will be "taken care of" by their vendor are mistaken. While information system vendors are instrumental in assisting credit unions implement their Y2K plans, the credit union remains responsible for managing the Y2K conversion process.

The problem begins with the way information is shared between different programs. For example, a credit union may have a vendor that supplies a share and loan package, along with the general ledger. This same credit union may have purchased a payroll program from another vendor, and their ALM package may be supplied by a third vendor. Each vendor may say that its program is Y2K compliant, however, the credit union must ensure that each vendor's program will communicate with one another.

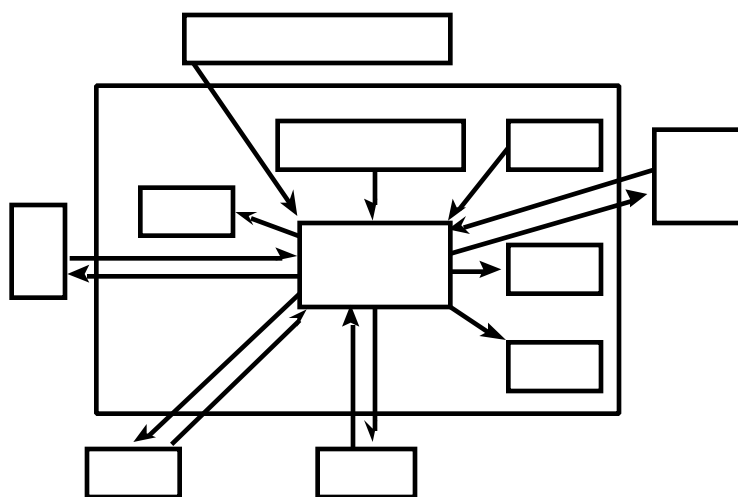


Figure 1

As vendors renovate their programs to accept dates beyond the Year 2000, choices are made to accomplish that renovation; and each vendor could choose a different method to make its program compliant. The payroll program must be able to communicate, or *interface*, with the

general ledger package, and it is up to the credit union to identify this interface and determine if the programs can communicate. If not, a bridge between the programs must be built. All interfaces must be identified and managed. This process makes Y2K a management issue, rather than a technical issue.

Interfaces include any electronic connection within the credit union, as well as outside the credit union. Outside interfaces include: sponsor payroll deductions; communications with other financial institutions, such as corporate credit unions, credit bureaus, credit union members using a home banking system, and the Federal Reserve.

The system flow-chart (see Figure 1) illustrates the different interfaces a credit union may have.

Successfully managing your credit union's Y2K conversion process is directly related to your ability to manage your vendors, and includes the following steps:

- Identify all Y2K affected programs/systems by vendor - as part of the assessment phase of your Y2K project.

Then ask Y2K vendors to:

- Document where they are in their Y2K conversion.
- Document the method being used to renovate their programs.
- Document their products' ability to interface with the other products in your system.
- Document when their Y2K product will be released.
- Document the type of testing they have performed and results of that testing.
- Document the methods used to test their product in your environment.

The final step in managing your electronic systems is having a detailed contingency plan in place for each vendor should their conversion plans fail. It is critical for credit unions to develop detailed contingency plans that specify potential alternative systems or systems providers, including specific time frames for converting to alternative systems.



## Accounting for Year 2000 Costs

NCUA recently issued *Accounting Bulletin No. 97-1*, which highlights rules governing accounting for the costs of making credit union systems and systems software Year 2000 compliant. The bulletin borrows from generally accepted accounting principles (GAAP) and other standards-setters on the topic. Credit union management is responsible for following GAAP in accounting for costs to modify systems and systems software to achieve Year 2000 compliance.

The Bulletin discusses accounting for: (i) external and internal costs to modify *existing internal-use* computer software for the year 2000; (ii) purchases or development of software to *replace* existing software that is not year 2000 compliant; (iii) training costs; (iv) maintenance costs; and (v) related asset impairment issues.

Essentially, costs to modify existing software to make it Year 2000 compliant must be charged to expense as incurred; the costs of computer software developed or obtained *for internal use* should be capitalized as a long-lived asset and depreciated over its useful life, provided such internal-use software is not research and development related. Training costs should be recognized as an expense when incurred; and maintenance fees should be recognized as an expense over the maintenance period.

Many systems and systems software are not programmed to



## Board Meeting Schedule 1998\*

\*ALL MEETINGS SUBJECT TO CHANGE

DATE	TYPE MEETING	TIME	PLACE
01/22/98(Thurs)	Open	10:00 am	Alex, VA
01/22/98(Thurs)	Closed	11:30 am	Alex, VA
02/25/98(Wed)	Open	1:30 pm	Alex, VA
02/25/98(Wed)	Closed	3:00 pm	Alex, VA
03/19/98(Thurs)	Open	10:00 am	Alex, VA
03/19/98(Thurs)	Closed	11:30 am	Alex, VA
04/16/98(Thurs)	Open	10:00 am	Alex, VA
04/16/98(Thurs)	Closed	11:30 am	Alex, VA
05/28/98(Thurs)	Open	10:00 am	Alex, VA
05/28/98(Thurs)	Closed	11:30 am	Alex, VA
06/23/98(Tues)	Open	10:00 am	Alex, VA
06/23/98(Tues)	Closed	11:30 am	Alex, VA
07/30/98(Thurs)	Open	10:00 am	Alex, VA
07/30/98(Thurs)	Closed	11:30 am	Alex, VA
09/23/98(Wed)	Open	1:00 pm	Alex, VA
09/23/98(Wed)	Closed	3:00 pm	Alex, VA
10/22/98(Thurs)	Open	10:00 am	Alex, VA
10/22/98(Thurs)	Closed	11:30 am	Alex, VA
11/19/98(Thurs)	Open	10:00 am	Alex, VA
11/19/98(Thurs)	Closed	11:30 am	Alex, VA
12/17/98(Thurs)	Open	10:00 am	Alex, VA
12/17/98(Thurs)	Closed	11:30 am	Alex, VA

recognize system dates for Year 2000 and beyond. This is because many systems were programmed to use and store the last two digits of the year (1997="97"; 1998="98"; 1999="99", etc.). When January 1, 2000 arrives (and most likely before) many systems will read "00" and assume 1900, read an "error", or some other unknown alternative. These systems will have to be repaired or replaced to make them

Year 2000 compliant.

To obtain a copy of the Bulletin via the Internet on NCUA's web site, go to "Reference Information"; "Accounting Bulletins"; "1997" at <http://www.ncua.gov>; or contact NCUA Publications at 703-518-6410. For accounting advice beyond what is provided in the Bulletin, credit unions should consult an independent accountant.

## In the Mail

A recent letter from Joseph A. Ratti, Chairman of Reliance Federal Credit Union, King of Prussia, Penn., to NCUA Chairman Norman E. D'Amours urges credit union advocates to unite and emphasize the excellent condition of today's credit unions.

Dear Chairman D'Amours,

*I have it on good authority that you are guilty of trying to destroy the entire credit union movement. You single handedly are responsible for all the troubles we in the credit union movement are facing. You are responsible for all the failed credit unions; you caused the loss of millions of dollars because you tried to protect member's money from bad credit union investments.*

*All of the above and more is fiction of course, but when it appears in publications and is circulated across the country with pictures and headlines of past officials of NCUA, it appears to be fact.*

*I join with the hardworking credit union officials, volunteers and members who know these critics are not helping any of us. If they cared about credit unions they would not be critical of what has been the most successful years in credit union history....*

*Our success under your leadership speaks for itself. Credit unions are far better off now than they ever where. We should be proud of the accomplishments and telling the world about the success of credit unions.*

*I urge these critics to stop publicizing their negative comments and join us in our effort to build for the future helping all credit unions, the financial industry and the hard working citizens of our great country.*

Sincerely,

Joseph A. Ratti  
Chairman

## Treasury Study

continued from page 1

4. Enable NCUA to set premium amounts as appropriate.

Also, NCUA should use the most current insured deposit data available to calculate the Share Insurance Fund's equity ratio.

## Corporate CUs

The study recommends that NCUA:

1. Provide additional resources to its Office of Corporate Credit Unions.
2. Make greater use of risk-based approaches to supervision.
3. Improve written guidance for examiners and corporate credit unions.
4. Update its system for rating the strength of corporate credit unions.
5. Provide better analysis and documentation in connection with examinations.

## Discontinue the Central Liquidity Facility

Because credit unions can now borrow from the Federal Reserve, the Treasury study recommends that Congress eliminate the Central Liquidity Facility. Larger credit unions can arrange for access to the discount window of Federal Reserve banks and smaller credit unions have firm lines of credit from the corporate credit union system, the Treasury concludes.

# NCUA News

National Credit Union  
Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

FIRST CLASS MAIL  
POSTAGE AND FEES PAID  
NCUA  
PERMIT No. G-88